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Oil Industry: Winners and Losers

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IT'S A NEW GAME IN MERGERS

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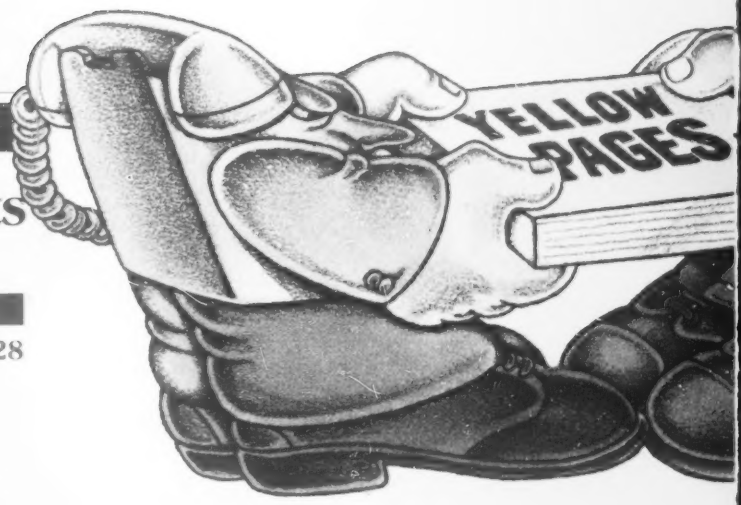

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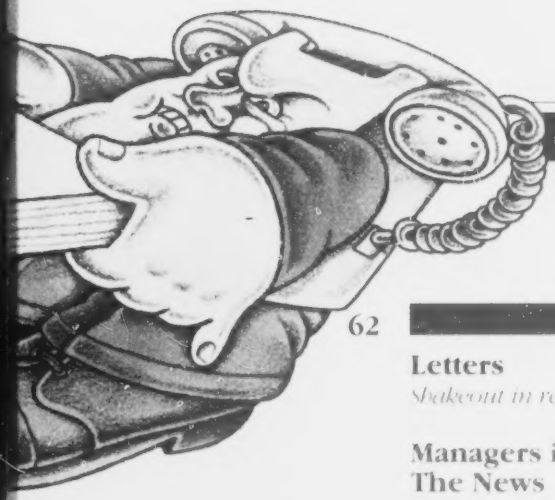

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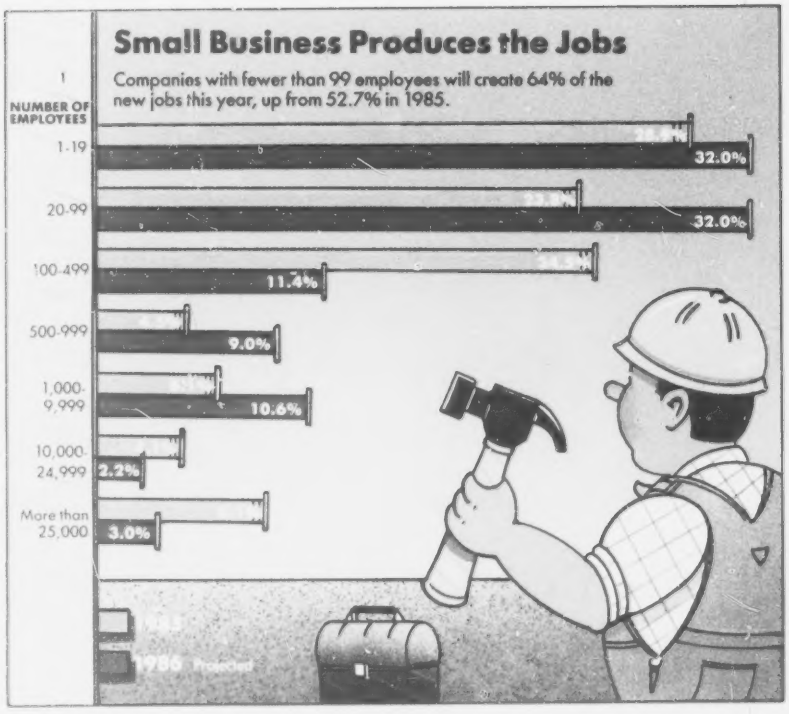
DUN'S 5000

A STRONG SURGE IN NEW JOBS IN 1986



American business will create an impressive 3 million new jobs this year, according to the DUN'S 5000 survey conducted in mid-February. This is a 50% jump from the 2 million jobs created last year.

The DUN'S 5000 surveys have had an excellent record in forecasting future job growth. Last year, for example, the survey predicted that 2.25 million new jobs would be created; the actual number was 2 million. It is really not surprising that the actuality was a shade lower than the forecast, since the economy at the beginning of the year was far stronger than it was by the fourth quarter.

This year, the pace of job growth in January was exceptionally strong. There was a 749,000 increase in civilian employment, which hit nearly 109 million—approximately 1.9% above January 1985. Since the DUN'S 5000 survey was conducted at a time when many firms were stepping up hiring, this year's projected increase could also be a shade too optimistic. But given past experience, the forecast should come very close to the mark.

A breakout of the 1986 job outlook by size of firm points up a trend that has been dominant during the current recovery—and is growing steadily: Smaller companies are producing most of the new jobs (*see chart*). Firms with fewer than nineteen employees will produce 32% of the new jobs this year (up from 28.9% in 1985), while another 32% (up from 23.8% last year) will be accounted for by firms with between 20 and 99 workers. Companies with more than 25,000 employees will account for only 3% of additional employment (down from last year's 8.1%) and those with between 10,000 and 24,999 will produce only 2.2% (down from last year's 4.1%) of the new jobs.

The 1986 job surge, however, is likely to produce only a modest drop in the nation's unemployment rate, which suddenly surged to 7.3% in February. The reason: the continuous flow of new entrants into the job market. Between 1976 and 1985, the proportion of women in the labor force rose from 47.3% to 54.5%. This was a major factor in the increase in the total civilian labor force of about 2 million, or 1.7% in each of the last two years. If the 1986 increase is held to that level, unemployment would decline to 6.2%. The odds are, however, that the favorable employment prospects will attract even more workers. Thus, it is unlikely that the jobless rate will drop much below 6.5%.

A far better measure of the health of the economy is the employment-population ratio, which simply indicates the percentage of people employed in the entire population. After dropping to 57.8% during the 1981-82 recession, the ratio hit 60.1% last year. If the DUN'S 5000 projections pan out and 3 million new jobs are created this year, this key ratio could hit an all-time high of 61%. With a higher proportion of the population employed, consumer incomes—and therefore spending—should grow throughout the year, adding still more strength to the economy.

—JOSEPH W. DUNCAN

Joseph W. Duncan, formerly Chief Statistician of the Office of Management and Budget and Chairman of the United Nations Statistical Commission, is Corporate Economist of The Dun & Bradstreet Corp.

ILLUSTRATION BY LAMBO PAPADOS

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INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(2/28/86) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$24.84/share	$10,758	$13,000
per cent change		+7.6%	+30.0%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$127.44	$10,782	$13,155
ACCUMULATED INCOME		$ 83	$ 1,213
TOTAL		$10,865	$14,368
per cent change		+8.7%	+43.7%
Money Market Fund	7.11%	$10,055	$10,758
per cent change		+.6%	+7.6%
Gold (Krugerrands)	$342.00/oz.	$ 9,685	$11,325
per cent change		-3.2%	+13.3%
HOUSE PRICES	Recent	Month Earlier	Year Earlier
Existing House	$100,000	$101,500	$ 88,100
per cent change		-1.5%	+11.9%
New House	$112,700	$108,400	$101,800
per cent change		+3.8%	+9.7%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes, Inc.; Federal Home Loan Bank Board.

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bert ($3.50 a share in 1986, $4.10 next year), Johnson & Johnson ($3.15 and $4.20), Syntex ($3.15 in fiscal 1986, ending July 30, and $3.60 next year), Schering-Plough ($4.10 and $4.65) and Eli Lilly & Co. ($3.95 and $4.35).

Medium-sized companies—those with a market capitalization of $200-million-to-$600 million—recently have attracted some Bessemer money. "The very large companies are at least fairly valued," Nabi says. "With the smallest companies, you are buying an uncertain future."

He likes Loral, an electronics warfare equipment manufacturer, because "it has a super earnings record and a good balance sheet, and doesn't rely on just a few contracts." Loral is also a takeover possibility, he says, because many companies are seeking high-tech acquisitions. Nabi predicts it will earn $2.65 a share in its 1987 fiscal year, ending March 31, up from an estimated $2.15 in the current year.

Irving Bank, says Nabi, is a money-center bank with many of the attributes of a regional. "Irving is one of the few banks of its size that still owns its real estate," he says. "The stock sells at a substantial discount to its real asset value and at a low p/e multiple." He looks for $6.75 a share this year and $7.55 next.

Cross & Trecker, the largest and perhaps most sophisticated machine tool maker, should earn $1.40 a share in its current fiscal year, ending September 30, with a "quantum jump" in fiscal 1987, according to Nabi. Bell & Howell, which is moving aggressively into information technology and sells at a below-market multiple, should earn $3.10 a share and $3.50 respectively this year and next.

Bessemer also invests in special situations, such as MCA, the entertainment company. Nabi believes its assets are worth much more than the current stock price indicates and it has an excellent balance sheet. He also says that the company is "entering a period of very strong earnings momentum." He expects earnings of $3 a share this year and $3.60 in 1987, up from $2.02 in 1985. —PHILIP SPRINGER